

PERFORMANCE AUDIT
OF THE
MICHIGAN GAMING CONTROL BOARD

DEPARTMENT OF TREASURY

December 2003

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

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Michigan *Office of the Auditor General* REPORT SUMMARY

Performance Audit

Michigan Gaming Control Board

Department of Treasury

Report Number:
27-900-02

Released:
December 2003

The Michigan Gaming Control Board (MGCB) was created as an autonomous entity within the Department of Treasury by Act 69, P.A. 1997, the Michigan Gaming Control and Revenue Act, which substantially amended Proposal E, a voter initiative approved in November 1996. Among its other provisions, the Act authorized up to three commercial casinos in Detroit and vested MGCB with exclusive authority to license, regulate, and supervise casino gaming in the three commercial casinos.

Audit Objectives:

1. To assess MGCB's effectiveness in ensuring that the commercial casinos and the tribal casinos submitted the required amounts to the School Aid Fund and the Michigan Strategic Fund, respectively.
2. To assess the effectiveness and efficiency of MGCB's regulation and enforcement activities.
3. To assess the effectiveness of MGCB's processes for issuing casino licenses, casino supplier licenses, and occupational licenses.

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Audit Conclusions:

1. We concluded that MGCB could significantly improve its effectiveness in ensuring that the commercial casinos and the tribal casinos submitted the required amounts to the School Aid Fund and the Michigan Strategic Fund, respectively.

2. We concluded that MGCB's regulation and enforcement activities were conducted with limited effectiveness and efficiency.
3. We concluded that MGCB's processes for issuing casino licenses, casino supplier licenses, and occupational licenses were generally effective.

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Noteworthy Accomplishments:

MGCB designed and implemented a thorough and effective casino licensing methodology. This methodology included the creation of an interagency council that combined the expertise of several government agencies. Also, MGCB contracted with two nationally recognized gaming consultants for construction and finance expertise.

The interagency council developed a Background Investigation Protocol to assess casino license applicants' eligibility and suitability in the areas of identity, honesty and integrity, regulatory

compliance, financial ability and viability, business probity, political influence, and public interest. The use of this investigatory protocol resulted in all three commercial casinos restructuring their ownership prior to casino licensure.

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Material Conditions:

MGCB's Audit Section's efforts did not provide full assurance that the casinos had developed and implemented controls regarding the reliability of financial reporting and compliance with applicable laws and regulations (Finding 1).

MGCB's tribal gaming oversight efforts did not effectively ensure that applicable tribal casinos submitted the required amounts to the credit of the Michigan Strategic Fund from their revenues generated by electronic games of chance (Finding 2).

MGCB's Regulation and Compliance Section needs to improve the effectiveness of its casino monitoring process (Finding 3).

MGCB's executive director needs to continue to seek multiple exceptions to the Statewide hiring freeze (Finding 4).

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Other Conditions:

MGCB had not provided sufficient training for its staff to help ensure the uniform, equitable, effective, and efficient oversight of casino gaming throughout the State (Finding 5).

MGCB needs to establish a comprehensive continuous quality improvement process to monitor and improve its effectiveness in licensing, regulating, and overseeing casino gaming (Finding 6).

MGCB's Casino Employee Licensing Section had not completed investigations of casino employee applicants in a timely manner (Finding 7).

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Agency Response:

The audit procedures included examining MGCB's records and activities primarily for the period January 1, 1999 through January 31, 2003. Since this time period, MGCB has reported the development of several significant initiatives to enhance management's oversight and administration strategies. These initiatives address the conditions contained in this report, including those identified as material conditions. Actions taken to address the material conditions include the hiring of five new auditors; implementation of an Indian Gaming Section comprehensive oversight, auditing, and compliance policy and procedure; implementation of a case management system that allows the real time tracking of incident reports; and creation of a new organizational plan for the Enforcement Division.

The audit report includes 7 findings and 7 corresponding recommendations. The agency preliminary response indicated that MGCB agreed with all 7 recommendations.

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A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: www.state.mi.us/audgen/



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THOMAS H. MCTAVISH, C.P.A.
AUDITOR GENERAL

December 23, 2003

The Honorable Roman S. Gribbs, Chairman
Michigan Gaming Control Board
Cadillac Place
Detroit, Michigan
and
Mr. Daniel J. Gustafson, Executive Director
Michigan Gaming Control Board
Abbott Center
East Lansing, Michigan
and
Mr. Jay B. Rising
State Treasurer
Treasury Building
Lansing, Michigan

Dear Judge Gribbs, Mr. Gustafson, and Mr. Rising:

This is our report on the performance audit of the Michigan Gaming Control Board, Department of Treasury.

This report contains our report summary; description of agency; audit objectives, scope, and methodology and agency responses; comments, findings, recommendations, and agency preliminary responses; various exhibits, presented as supplemental information; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

Sincerely,

A handwritten signature in black ink, reading "Thomas H. McTavish".

Thomas H. McTavish, C.P.A.
Auditor General

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Description of Agency

In November 1996, Michigan voters approved Proposal E, which authorized the development of up to three licensed, commercial casinos* in Detroit. In July 1997, the Legislature substantially amended the voter initiative with the enactment of Act 69, P.A. 1997, the Michigan Gaming Control and Revenue Act. Among its provisions, the Michigan Gaming Control and Revenue Act:

- Authorized up to three commercial casinos in Detroit (MGM Grand Detroit licensed in July 1999, MotorCity Casino licensed in December 1999, and Greektown Casino licensed in November 2000).
- Created the Michigan Gaming Control Board (MGCB) as an autonomous entity within the Department of Treasury and vested MGCB with exclusive authority to license, regulate, and supervise casino gaming in the three commercial casinos.
- Authorized MGCB to promulgate necessary administrative rules to properly implement, administer, and enforce the Act.
- Provided for MGCB to license, regulate, and supervise casino gaming operations, manufacturers and distributors of gaming equipment and other casino suppliers, and casino and supplier employees.
- Established standards and procedures for issuing casino licenses, casino supplier licenses, and occupational licenses.
- Authorized and imposed certain State and city casino wagering taxes on casinos and various fees for casino, casino supplier, and occupational licenses.
- Required the deposit of State casino wagering tax revenue in the School Aid Fund.
- Created the State Services Fee Fund to provide for all casino regulatory and enforcement costs, compulsive gambling programs, casino related programs and

* See glossary at end of report for definition.

activities, casino related legal services provided by the Department of Attorney General, and the casino related expenses of the Michigan Department of State Police.

The State imposes an 8.1% casino wagering tax on the adjusted gross revenue* (gaming receipts less winnings paid to wagerers) received by each commercial casino from authorized gaming operations. The casino wagering tax paid by the three commercial casinos for calendar year 2002 totaled \$91,136,624 (see Exhibit 1.) Since the first casino was licensed and began operations in July 1999, the School Aid Fund had received a total of \$248,200,900 from casino wagering taxes paid by the three commercial casinos through the end of calendar year 2002.

In addition, the Governor of Michigan officially designated and authorized MGCB as Michigan's representative to conduct inspections of tribal class III gaming* facilities and records in accordance with the provisions of the various Tribal/State Compacts for the Conduct of Tribal Class III Gaming on Indian Lands in Michigan (Tribal/State Gaming Compacts*). Because the Native American tribes are sovereign nations, the State does not have general regulatory authority over tribal casinos; however, the State does have oversight authority over compliance with the Tribal/State Gaming Compact provisions. This oversight authority includes:

- Inspecting tribal facilities and documents to ensure compliance with Tribal/State Gaming Compacts and related agreements.
- Examining tribal casinos' electronic games of chance* (slot machines) to ensure that these devices are operating in accordance with the terms of the Tribal/State Gaming Compacts.
- Conducting financial audits to ensure that applicable tribal casinos are paying 8% and 2% of adjusted gross revenue from slot machines to the credit of the Michigan Strategic Fund and to local municipalities, respectively, in accordance with the Tribal/State Gaming Compacts and related consent judgments*.

* See glossary at end of report for definition.

The State has entered into Tribal/State Gaming Compacts with 11 Native American tribes. These 11 compacts have produced 17 tribal casinos located throughout the State (see Exhibit 5 for Statewide listing and map of casino locations). At the time of our audit, additional compacts and associated casinos were in various stages of negotiation.

For the fiscal year ended September 30, 2002, MGCB expended approximately \$13.9 million. As of February 28, 2003, MGCB had 89 employees.

Audit Objectives, Scope, and Methodology and Agency Responses

Audit Objectives

Our performance audit* of the Michigan Gaming Control Board (MGCB), Department of Treasury, had the following objectives:

1. To assess MGCB's effectiveness* in ensuring that the commercial casinos and the tribal casinos submitted the required amounts to the School Aid Fund and the Michigan Strategic Fund, respectively.
2. To assess the effectiveness and efficiency* of MGCB's regulation and enforcement activities.
3. To assess the effectiveness of MGCB's processes for issuing casino licenses, casino supplier licenses, and occupational licenses.

Audit Scope

Our audit scope was to examine the program and other records of the Michigan Gaming Control Board. Our audit was conducted in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

As part of our audit, we prepared, from various gaming sources, supplemental information (Exhibits 1 through 5) that relates to our audit objectives. Our audit was not directed toward expressing an opinion on this information and, accordingly, we express no opinion on it.

Audit Methodology

Our audit procedures, performed from May 2002 through February 2003, included examining MGCB's records and activities primarily for the period January 1, 1999 through January 31, 2003.

* See glossary at end of report for definition.

To establish our audit objectives, we conducted a preliminary review of MGCB's operations. This included discussions with key central office staff and on-site interviews with MGCB's casino licensing, audit, and regulation staff regarding their functions and responsibilities. Also, we reviewed program and financial records and applicable gaming statutes and associated administrative rules. We obtained and reviewed various states' audit reports and selected national publications related to casino operations.

We obtained an understanding of MGCB's processes for issuing casino licenses, casino supplier licenses, and occupational licenses. We assessed the effectiveness and the thoroughness of MGCB's licensing operations by analyzing MGCB's tests of applicants' eligibility and suitability for licensure. Also, we assessed the timeliness of MGCB's licensure process.

We obtained an understanding of MGCB's regulation, audit, and gaming laboratory operations. We analyzed the effectiveness and efficiency of MGCB's regulation and compliance activities by evaluating MGCB's efforts to regulate and audit the casinos. We evaluated the gaming laboratory's role in ensuring the integrity of electronic games of chance within the casinos.

We assessed MGCB's revenue reconciliation and wagering tax computation verification processes for the commercial casinos. We evaluated MGCB's tribal gaming oversight efforts to ensure that applicable tribal casinos submitted appropriate payments to the Michigan Strategic Fund based on their revenues generated by electronic games of chance.

Agency Responses

The audit procedures included examining MGCB's records and activities primarily for the period January 1, 1999 through January 31, 2003. Since this time period, MGCB has reported the development of several significant initiatives to enhance management's oversight and administration strategies. These initiatives address the conditions contained in this report, including those identified as material conditions. Actions taken to address the material conditions include the hiring of five new auditors; implementation of an Indian Gaming Section comprehensive oversight, auditing, and compliance policy and procedure; implementation of a case management system that allows the real time tracking of incident reports; and creation of a new organizational plan for the Enforcement Division.

The audit report includes 7 findings and 7 corresponding recommendations. The agency preliminary response indicated that MGCB agreed with all 7 recommendations.

The agency preliminary response that follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require MGCB to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

EFFECTIVENESS OF EFFORTS TO ENSURE CASINOS' PAYMENTS TO APPROPRIATE STATE FUNDS

COMMENT

Audit Objective: To assess the Michigan Gaming Control Board's (MGCB's) effectiveness in ensuring that the commercial casinos and the tribal casinos submitted the required amounts to the credit of the School Aid Fund and the Michigan Strategic Fund, respectively.

Conclusion: We concluded that MGCB could significantly improve its effectiveness in ensuring that the commercial casinos and the tribal casinos submitted the required amounts to the School Aid Fund and the Michigan Strategic Fund, respectively. Our assessment disclosed two material conditions*. MGCB's Audit Section's efforts did not provide full assurance that the casinos had developed and implemented controls over the reliability of financial reporting and compliance with applicable laws and regulations (Finding 1). Also, MGCB's tribal gaming oversight efforts did not effectively ensure that applicable tribal casinos submitted the required amounts to the credit of the Michigan Strategic Fund from their revenues generated by electronic games of chance (Finding 2).

FINDING

1. Audit Efforts

MGCB's Audit Section's efforts did not provide full assurance that the casinos had developed and implemented controls over the reliability of financial reporting and compliance with applicable laws and regulations. We consider this a material condition.

* See glossary at end of report for definition.

Noted gaming experts Dennis L. Amerine and Ronald F. Asher have described an effective audit function as including these primary objectives:

- To determine that gaming revenues are properly reported in all material respects.
- To determine that the casino is complying with established laws and rules.
- To determine that the controls in effect are adequate and that the casino is complying with the approved controls.

MGCB's Audit Section is organizationally part of the Enforcement Division. Throughout most of our audit fieldwork, the Section consisted of 4 auditors: 1 auditor at the MGM Grand Detroit Casino, 1 auditor at the MotorCity Casino, and 2 auditors at the Greektown Casino. These casinos had adjusted gross revenue of \$1.125 billion, which generated a State casino wagering tax of \$91.1 million for calendar year 2002. The Audit Section's minimal staffing levels significantly contributed to the conditions disclosed by our audit procedures:

- a. The Audit Section conducted limited audits of casino operations. As of February 2003, the Section had completed only 4 audits for all 3 casinos since the first casino opened in July 1999. And, all 4 audits were completed on operations at the same casino. In addition, the completed audits addressed only 4 of the 9 critical components identified by MGCB as audit risk areas. The Section's 2002 audit plan identified 12 audits to be conducted at the 3 casinos. Of these 12 audits, the Section had completed only 1 audit as of February 2003. The risk areas of accounting, hard/soft count, purchasing, table games, and on-line systems have yet to be addressed by an MGCB audit.
- b. The Audit Section's audit procedures provided only limited assurance that the casino wagering taxes submitted to the credit of the School Aid Fund were accurate. MGCB had developed a structured monitoring module to determine that the State's proper share of casino wagering taxes was withheld, to determine the completeness of the tax computation's supporting documentation, and to look for material weaknesses in the daily tax return.

The module requires the Audit Section to review randomly selected daily tax returns twice weekly.

Our review of modules completed by the Audit Section during the first 10 months of 2002 disclosed that the average number of daily tax returns reviewed per casino ranged from 0.1 per month to 4.2 per month. Also, these tax return reviews frequently included only reconciliations with other on-line slot reporting system reports rather than verifications to revenue source documents, such as cage reports. Further, MGCB had not developed a compensating review procedure for testing the actual hold (win) percentages per the slot machines' meters with the actual hold percentages as reported by the on-line slot reporting system until November 2002. The on-line slot reporting system produces most of the information used when completing the structured monitoring module for determining that the State's proper share of casino wagering taxes was withheld on a daily basis.

- c. MGCB had not instituted a methodology for reviewing the casinos' independent auditor's reports even though such a structured monitoring module existed. Section 432.214 of the *Michigan Compiled Laws* requires that the casinos submit to MGCB quarterly audits of financial condition conducted by a certified public accountant. MGCB received these quarterly audits; however, it had not instituted its methodology for review of these reports by the Audit Section. Such a review methodology could assist with MGCB's verification of casino revenue and casino wagering tax computations, thus providing further assurance that the casinos submitted the correct casino wagering tax to the credit of the School Aid Fund. Also, these reviews may identify internal control* weaknesses at the casinos, which the Audit Section may decide to address in its casino audits.
- d. The Audit Section's auditors did not systematically complete or document the completion of the structured monitoring modules related to the Audit Section. The auditors are responsible for 16 of MGCB's approximately 40 modules. These modules address areas such as daily tax returns, internal audit reports, machine meters vs. systems meter verification, and comparison of quarterly financial statements with tax returns.

* See glossary at end of report for definition.

We compared the auditors' completion of modules with the modules' stated completion frequencies. By using the 16 audit related modules and by factoring in their stated completion frequencies at each casino, we determined that the auditors should have completed 2,505 modules during the period January through November 2002. However, only 65 (2.6%) modules were completed during this time frame. Completion of these modules would further verify the accuracy of the casino wagering tax submitted to the credit of the School Aid Fund.

Similar conditions within the Audit Section were identified in an MGCB contracted report prepared by noted gaming experts Dennis L. Amerine and Ronald F. Asher. This report recommended that the Audit Section focus its efforts on a structured audit process consistent with Michigan's statutory and accounting profession requirements. The gaming experts stated:

. . . the Audit process is typically the portion of the oversight mechanism that discovers a significant portion of a casino's noncompliance with gaming laws, rules and regulations during the conduct of its routine audits.

RECOMMENDATION

We recommend that the Audit Section expand its efforts to provide full assurance that the casinos have developed and implemented controls over the reliability of financial reporting and compliance with applicable laws and regulations.

AGENCY PRELIMINARY RESPONSE

MGCB agreed with this recommendation. MGCB responded that, with the hiring of 5 new auditors, the Audit Section now consists of 8 staff auditors. MGCB also responded that Department of Management and Budget approval for the proposed Audit Section structural reorganization will allow for an additional 3 auditors. MGCB further responded that the recent increase in staff levels has allowed for the completion of 4 audits as of the end of the third quarter with another 4 audits currently in process. The Section's goal is to meet its audit plan of completing 12 audits by the end of December 2003. MGCB's long-range audit plans for 2004-05 will include completing compliance audits for all 12 risk areas.

MGCB stated that the Audit Section has expanded its review of the daily tax returns to provide reasonable assurance that the casino wagering taxes submitted to the credit of the School Aid Fund are accurate.

MGCB informed us that the Audit Section has incorporated additional test procedures and reconciliation of other revenue source documents in its review. The Audit Section has increased its daily tax review per casino from the range of 0.1 per month to 4.2 per month to 26.0 per month.

MGCB determined that the skills and expertise of MGCB's Gaming Laboratory Section were necessary in completing the review procedures for testing the actual hold (win) percentages per the slot machine meters with the actual hold percentages as reported by the on-line slot reporting system. Any discrepancies noted would be communicated to the Audit Section to ensure accuracy in the reporting of casino wagering taxes.

MGCB also informed us that the Audit Section currently reviews the quarterly financial statements issued by the casinos' independent auditors. The methodology for the review of these reports includes verification of casino revenue and accounts receivable.

MGCB also determined that the Audit Section is responsible for 7 of the Enforcement Division's 54 modules. After a recent review of the initial 16 monitoring modules, MGCB further determined that some of the modules required the expertise of other Enforcement Division sections or that the monitoring procedures are included in the compliance audits performed by the Audit Section.

FINDING

2. Tribal Gaming Oversight

MGCB's tribal gaming oversight efforts did not effectively ensure that applicable tribal casinos submitted the required amounts to the credit of the Michigan Strategic Fund from their revenues generated by electronic games of chance. We consider this a material condition.

The State has entered into Tribal/State Gaming Compacts with 11 Native American tribes. These 11 Compacts (9 with operational casinos) have produced 17 tribal

casinos located throughout the State (see Exhibit 5). The Compacts require the tribes to pay 8% of adjusted gross revenue from slot machines to the credit of the Michigan Strategic Fund and 2% of adjusted gross revenue to local municipalities. However, because of the loss of an "exclusive right" to conduct class III gaming in the State, only 3 tribes still pay the 8% to the credit of the Michigan Strategic Fund. All tribes continue to pay the 2% to local municipalities.

The Governor of Michigan officially designated and authorized MGCB as Michigan's representative to conduct inspections of tribal class III gaming facilities and records in accordance with the provisions of the various Tribal/State Gaming Compacts. Because the Native American tribes are sovereign nations, the State does not have general regulatory authority over tribal casinos; however, the State does have oversight authority over compliance with the Tribal/State Gaming Compact provisions. This oversight authority includes:

- Inspecting tribal facilities and documents to ensure compliance with Tribal/State Gaming Compacts and related agreements.
- Examining tribal casinos' electronic games of chance to ensure that these devices are operating in accordance with the terms of the Tribal/State Gaming Compacts.
- Conducting financial audits to ensure that applicable tribal casinos are paying 8% and 2% of adjusted gross revenue from slot machines to the credit of the Michigan Strategic Fund and to local municipalities, respectively, in accordance with the Tribal/State Gaming Compacts and related consent judgments.

To assess the effectiveness of MGCB's financial and compliance oversight efforts, we reviewed the oversight procedures conducted from October 1999 through September 2002:

- a. MGCB had conducted only limited tribal financial oversight procedures. The purpose of financial oversight is to ensure that tribal gaming revenue reporting is accurate and that internal control procedures are adequate and appropriate for an industry that annually generates an estimated adjusted gross revenue of \$918 million. For the time period reviewed, MGCB completed on-site audits of

only 2 of the 9 tribes, representing 3 (18%) of the 17 casinos. One of these tribal audits identified that the tribe had failed to submit its final payment of \$659,037 (delayed because of pending legislation), representing 8% of net slot machine revenues per the consent judgment, to the credit of the Michigan Strategic Fund. In addition, MGCB did not regularly obtain audited financial reports prepared by independent accounting firms hired by the tribes as authorized by the Tribal/State Gaming Compacts. For fiscal years 1999-2000, 2000-01, and 2001-02, MGCB obtained audited financial reports from 6 of 9 tribes, 3 of 9 tribes, and 0 of 9 tribes, respectively. However, the lack of audit reports obtained may be overshadowed by the lack of procedures for the systematic review and follow-up of any potential issues identified by these audit reports.

Staffing shortages significantly contributed to the ineffective financial oversight procedures as MGCB assigned only one person to conduct such procedures. Also, this staff person, who was hired in May 2000, did not have the auditing expertise to determine whether the casinos followed appropriate accounting procedures or whether the audited financial reports appropriately represented the tribes' revenue from class III gaming. Further contributing to MGCB's financial oversight's ineffectiveness were MGCB's lack of a systematic workplan and audit programs for staff to follow and the tribes' lack of full cooperation in providing access to all accounting records.

- b. MGCB's tribal compliance oversight efforts provided limited effectiveness in ensuring that tribal gaming operations complied with Tribal/State Gaming Compact provisions. For the 17 tribal casinos, which annually generate an estimated adjusted gross revenue of \$918 million, MGCB assigned only one tribal gaming compliance officer because of limited oversight funding provided by the Tribal/State Gaming Compacts. This compares with the 19 regulation officers employed to oversee the three commercial casinos in Detroit, which annually generate adjusted gross revenue of \$1.125 billion. Our review of compliance oversight procedures conducted by the tribal gaming compliance officer disclosed:

- (1) MGCB had not adequately communicated the results of its tribal compliance oversight efforts to the tribes. While MGCB had verbally

communicated with the tribes regarding selected compliance issues, MGCB had not provided written reports to the tribes.

- (2) MGCB had not developed structured monitoring modules or checklists for use when performing tribal compliance oversight procedures. Without such modules, MGCB cannot ensure that sufficient and comparable compliance procedures are conducted at all 17 tribal casinos. By contrast, MGCB has developed approximately 40 structured monitoring modules for use at the three commercial casinos in Detroit.
- (3) MGCB had not established a systematic workplan for its tribal compliance oversight procedures. The compliance officer informed us that he attempts to visit each casino at least once per quarter. However, a systematic methodology for visiting the tribal casinos would provide for efficient site visits, effective documentation of visits and compliance procedures conducted, and staff accountability.

By expanding its current tribal gaming oversight efforts, MGCB could enhance its assurance that applicable tribal casinos submitted the required amounts to the credit of the Michigan Strategic Fund from their electronic games of chance revenues. Also, expanded oversight efforts would help ensure the continued integrity of tribal gaming. In addition, if MGCB believes that the current amount of oversight to which the tribes have agreed is inadequate, MGCB could initiate a leadership role in promoting more precise and extensive enforcement language in future Tribal/State Gaming Compacts.

RECOMMENDATION

We recommend that MGCB expand its tribal gaming oversight efforts to ensure that applicable tribal casinos submit the required amounts to the credit of the Michigan Strategic Fund from their revenues generated by electronic games of chance.

AGENCY PRELIMINARY RESPONSE

MGCB agreed that, during some of the audit period, the effectiveness of the Indian Gaming Section was limited in ensuring that tribal gaming operations complied with Tribal/State Gaming Compacts. Although some of the ineffectiveness was attributable to a lack of oversight staff resulting from limited tribal funding, MGCB

informed us that a reorganization of the Indian Gaming Section took specific actions to eliminate the identified problem areas.

MGCB has a high degree of confidence that it can provide full assurance of proper tribal compliance with the Tribal/State Gaming Compacts due, in large part, to measures implemented in June 2003. These measures included the development and implementation of an Indian Gaming Section comprehensive oversight, auditing, and compliance policy and procedure. MGCB informed us that this action ensures the timely inspection of facilities for compliance with Tribal/State Gaming Compacts, the annual auditing of slot revenues, the periodic testing of slot machines and operations, and the timely review and auditing of financial records.

MGCB stated that this action, coupled with the hiring in September 2003 of an additional financial auditor and the assignment of a supervisor in June 2003, was the catalyst that has enabled the development and implementation of a formal Tribal Casino Compliance Plan. Also, there was approval of an additional audit position as funds become available from the tribes.

MGCB also stated that the Indian Gaming Section will begin in 2004 with the ability to provide full assurance of tribal casino compliance with the Tribal/State Gaming Compacts, federal minimum internal control, consent decrees, and other agreements.

EFFECTIVENESS AND EFFICIENCY OF REGULATION AND ENFORCEMENT ACTIVITIES

COMMENT

Audit Objective: To assess the effectiveness and efficiency of MGCB's regulation and enforcement activities.

Conclusion: We concluded that MGCB's regulation and enforcement activities were conducted with limited effectiveness and efficiency. Our assessment disclosed two material conditions. MGCB's Regulation and Compliance Section needs to improve the effectiveness of its casino monitoring process (Finding 3). Also, MGCB's executive director needs to continue to seek multiple exceptions to the Statewide hiring freeze (Finding 4).

Our assessment also disclosed reportable conditions* related to staff development and a continuous quality improvement* process (Findings 5 and 6).

FINDING

3. Casino Regulation and Compliance

MGCB's Regulation and Compliance Section needs to improve the effectiveness of its casino monitoring process. We consider this a material condition.

The Regulation and Compliance Section has primary responsibility for providing continuous, on-site regulatory presence at each of the three commercial casinos and for continuously assessing and reviewing the casinos' compliance with the Michigan Gaming Control and Revenue Act and associated administrative rules. Specific functions of the Section's regulation officers include:

- Conduct structured monitoring modules.
- Conduct routine verifications as required by the *Michigan Administrative Code*.
- Conduct investigations into regulatory and criminal activity.
- Observe gaming floor activities.
- Respond to licensee requests for assistance, advice, and approvals.

Our review of the Regulation and Compliance Section's casino monitoring process disclosed:

- a. The Section's regulation officers did not systematically complete or document the completion of structured monitoring modules. MGCB staff developed approximately 40 modules, which represent MGCB's proactive method for conducting regulatory and compliance inspections within each casino. These modules address such topics as hopper fills, bill validator drops, card and dice control, and auxiliary fills. Each module includes a regulatory reference, description, compliance review methodology, and completion frequency.

* See glossary at end of report for definition.

We attempted to compare the regulation officers' completion of modules with the modules' stated completion frequencies. By using the number of modules developed and by factoring in their stated completion frequencies at each casino, we calculated that the officers should have completed 2,091 modules during the period January through November 2002. However, only 502 (24%) modules were completed during this time frame per information compiled for us by the Section.

Originally, we requested Section reports detailing the number of modules completed per casino, month, and regulation officer. However, MGCB had not yet developed a system/methodology to record and track module completion. As a result, regulation officers manually counted each module's report noting the casino, month, and personnel involved in order to fulfill our request for information related to module completion (see item b).

A lack of on-site supervision and training for regulation officers (see Finding 5) could have contributed to the number of modules not completed. Insufficient supervision lessens employee accountability. Inadequate training results in reduced understanding as to the reasoning and need for performing assigned tasks, which reduces incentive and enthusiasm for effective work performance.

- b. MGCB had not developed a case management system for tracking incident reports, investigations, and other types of compliance violations. Thus, neither the regulation officers nor Section management could determine the number or status of investigations initiated. To assist us with assessing the effectiveness of the Section's regulatory activities, we requested Section management to provide us with reports showing the numbers of pending investigations, investigations approved by management, and investigations by type of compliance violation and the subsequent duration of investigations.

The Section's response to our request for investigation information contained phrases such as "data never maintained" or "unable to manually retrieve data requested in allotted time." The lack of a case management system results in inefficient use of MGCB resources through the duplication of employee effort and reduced employee accountability. The development and implementation of such a system would allow management to identify compliance violation

trends and to evaluate the performance of individual regulation officers. Ironically, various MGCB staff designed the framework for such a case management system over two years ago. However, MGCB has not yet implemented this system or any variation thereof.

- c. MGCB had not developed a methodology for reviewing the casinos' annual compliance reports. *Michigan Administrative Code* R 432.11204(2) requires that each casino prepare annual compliance reports to address five specific compliance areas:
 - (1) Compliance with procedures related to calculating revenues and subsequent State and local taxes.
 - (2) Compliance with applicable ordinances and agreements.
 - (3) Compliance with MGCB-approved internal control procedures.
 - (4) Material deviations from the casino's approved internal control procedures.
 - (5) Corrective action taken by the casino to resolve deficiencies observed.

Upon our request to review these annual compliance reports, MGCB realized that 1 of the 3 casinos had never submitted an annual compliance report. Our review of the other casinos' annual compliance reports disclosed that these reports were so vaguely worded that specific noncompliance issues were not addressed. To enhance the usefulness of these reports, MGCB could develop a report format containing sections for presenting specific accounting, compliance, and licensing declarations; listing specific infractions; and providing the status of noncompliance issues.

- d. MGCB had not developed sufficient policies and procedures to help ensure the uniform, equitable, and efficient provision of MGCB's casino regulation and compliance activities. MGCB provided regulation officers with minimal guidance regarding the performance of day-to-day activities. Topics for which policies and procedures could be developed include module completion, significance of compliance violations, investigative report preparation,

surveillance system usage, and casino floor observation. Many regulation officers informed us that they did not have clear understandings of their roles and remained confused regarding the extent of their authority. This lack of specific guidance could lead to inconsistencies among the regulations officers' treatment of compliance violations encountered during their course of work.

MGCB provided us with a Compliance Field Manual; however, its value as a valid guidance/resource document was questionable. Critical topics, such as casino employee licenses, investigations, and databases, contained either draft policies or no policies.

- e. MGCB had not developed a sufficient number of structured monitoring modules to assess the casinos' compliance with all standards presented in Michigan's Minimum Internal Control Standards (MICS). MGCB designed MICS to provide a basic framework for the casinos in establishing their internal control system (ICS). Casinos are required to comply with both MICS and the procedures documented in their ICS.

However, MGCB had developed only 18 structured monitoring modules for use by the Section's regulation officers, whereas MICS addresses over 100 compliance areas. Thus, a majority of MICS compliance areas were not being uniformly and systematically assessed for compliance.

Several of the preceding issues were similarly presented in a report entitled "Procedural and Educational Needs Assessment Report" prepared for MGCB by noted gaming experts Dennis L. Amerine and Ronald F. Asher. This report, released in April 2002, contained the following statements related to this finding:

We recommend that an effective and efficient case management and review system for the Regulation and Compliance Section be developed and implemented as soon as possible.

. . . the development of additional written policies and procedures for this position seems to be critical to the further development and maturity of the regulatory process and for the effective control of the gaming industry in Michigan.

RECOMMENDATION

We recommend that MGCB's Regulation and Compliance Section improve the effectiveness of its casino monitoring process.

AGENCY PRELIMINARY RESPONSE

MGCB agreed with the recommendation. MGCB informed us that its Regulation and Compliance Section has implemented a case management system that allows the real time tracking of incident reports, investigations, and other regulatory activities. MGCB also informed us that a standardized system of report categorization as well as a systematic structured coding and filing of regulatory investigations has been implemented as a baseline foundation for the utilization and integration of the regulatory tracking system that is in place. Further, a daily reporting system for all Regulation and Compliance Section staff to archive all activities of field staff has been put in place.

MGCB stated that this has been complemented by the implementation of a redefined, reevaluated, and restructured monitoring inspection process (formally known as "modules"). Forty-seven monitoring inspections are being utilized in a real time test phase for applicability, uniformity, and validity.

MGCB also stated that, as a comparative analysis to the improved effectiveness of this casino monitoring process, the Regulation and Compliance Section has conducted 1,351 monitoring inspections for the period June through September 2003. When compared with a similar time period, this results in a 678% increase in monitoring inspections being conducted.

Previously, a case management system and a systematic structure for the completion and documentation of monitoring inspections were weak and inefficient.

However, due to new management, new processes, systems developed, and a structured and systematic path towards reorganization, MGCB's Regulation and Compliance Section believes that a material condition no longer exists.

FINDING

4. Staffing Shortages

MGCB's executive director needs to continue to seek multiple exceptions to the Statewide hiring freeze. We consider this a material condition.

Appropriations acts for fiscal years 1999-2000 through 2002-03 have imposed a Statewide hiring freeze upon the State's classified civil service. These acts have prohibited State departments and agencies from hiring any new full-time classified civil service employees and from filling any vacant classified civil service positions. However, the acts authorize the State Budget Director to grant hiring freeze exceptions when the Director believes that the hiring freeze will render a State department or agency unable to deliver basic services.

MGCB's appropriation does not include any funding from the State's General Fund. MGCB receives its funding from the State Services Fee Fund. This Fund was created by the Michigan Gaming Control and Revenue Act (Act 69, P.A. 1997), specifically within Section 432.212a of the *Michigan Compiled Laws*. Per its enabling legislation, the Fund was designed to pay for all regulatory and enforcement costs, compulsive gambling programs, casino-related programs and activities, casino-related legal services provided by the Department of Attorney General, and the casino-related expenses of the Michigan Department of State Police. The Fund derives its revenue from annual assessments of \$25 million, adjusted annually by the Detroit consumer price index. Each commercial casino pays an equal share of the annual assessments. For fiscal year 2001-02, the assessment amount paid to the Fund was approximately \$26.6 million, whereas MGCB's expenditures totaled only \$13.9 million.

Initially, MGCB showed fiscal responsibility by slowly increasing its size, avoiding the temptation to overhire personnel during the start-up years. However, as additional casinos were licensed and as casino gaming increased in popularity, MGCB's staffing levels did not keep pace with this growth, making it increasingly difficult for MGCB to fulfill its duties.

As a result, MGCB used various formats to present its need for additional staffing. In 2001, while evaluating its controls, MGCB identified and reported four material weaknesses caused by inadequate staffing levels. Our audit fieldwork identified

three areas (two of which remained from MGCB's 2001 identification) of significant operational ineffectiveness caused by existing staffing shortages:

- a. MGCB's tribal gaming oversight efforts did not effectively ensure that applicable tribal casinos submitted the required amounts to the credit of the Michigan Strategic Fund from their revenues generated by electronic games of chance (see Finding 2). The Fund's revenue from tribal casinos has ranged from \$22.0 million for fiscal year 1998-99 to \$13.3 million for fiscal year 2001-02. (After loss of gaming exclusivity, tribal casino payments have been reduced by consent judgments.)
- b. MGCB had not completed investigations of casino employee applicants in a timely manner. As a result, most casino employees were employed through a temporary licensure process that did not provide full eligibility and suitability assurance as mandated for occupational licensure (see Finding 7).
- c. MGCB's Audit Section's effort did not provide full assurance that the casinos had developed and implemented controls over the reliability of financial reporting and compliance with applicable laws and regulations (see Finding 1).

We believe that staffing shortages have adversely affected MGCB's ability to carry out its duties and responsibilities mandated by the Michigan Gaming Control and Revenue Act and its assigned oversight duties regarding compliance with the Tribal/State Gaming Compacts.

RECOMMENDATION

We recommend that MGCB's executive director continue to seek multiple exceptions to the Statewide hiring freeze.

AGENCY PRELIMINARY RESPONSE

MGCB agreed with this recommendation and agreed that exceptions to the State's hiring freeze are critical to carrying out MGCB's duties and responsibilities.

MGCB stated that, during the current hiring freeze, the Department of Management and Budget has approved all requests submitted by MGCB. However, MGCB

believes that more important to fulfilling its mission*, would be the approval of MGCB's new organizational plan for its Enforcement Division. The proposed organizational plan addresses key shortages and adopts the recommendations of the Auditor General by creating needed positions in the Enforcement Division. MGCB stated that funding and positions for the restructuring have been allocated by the Legislature in MGCB's current budget.

MGCB's executive director will follow this recommendation and continue to seek exceptions to the Statewide hiring freeze.

FINDING

5. Staff Development

MGCB had not provided sufficient training for its staff to help ensure the uniform, equitable, effective, and efficient oversight of casino gaming throughout the State.

To ensure that casino gaming operations are licensed, regulated, and conducted in a fair, honest, and lawful manner, MGCB employs various oversight personnel, including auditors, regulation officers, technicians, financial analysts, and engineers. MGCB staff possessed the requisite credentials and qualifications for the positions they occupied. However, given the unique circumstances surrounding the regulation of casino gaming, the rapid pace of expansion, and the relative newness of the industry in Michigan, a solid staff development program is essential.

Of significant concern was MGCB's lack of in-house training related to day-to-day and procedural responsibilities, such as interview techniques, investigative report writing, structured monitoring module completion, and interfacing techniques among MGCB divisions and sections. For example, MGCB could conduct in-house, classroom-style training related to completing the structured monitoring modules. Such training could explain the basis for each module's development, significance of each item within the module, preferred format for module completion, appropriate documentation of module completion, and follow-up responsibilities for noted noncompliance. To illustrate this need for training, while

* See glossary at end of report for definition.

reviewing the structured monitoring modules with MGCB staff, several staff expressed surprise to learn of particular modules' existence within their areas of responsibility. MGCB employees' most commonly expressed opinion was their desire for additional training.

To its credit, MGCB has sent several staff to various seminars related to casino operations. However, it was not apparent that MGCB optimized the benefit and value of the training by having the trained staff provide similar presentations to other MGCB staff.

Our audit procedures disclosed several organizational areas within MGCB that could significantly benefit from an enhanced staff development program. These areas include casino regulation and compliance (see Finding 3), audit efforts (see Finding 1), and tribal gaming oversight (see Finding 2). Additional training (see Finding 5), coupled with sufficient policy and procedure development, would help increase employees' understanding of how to perform assigned tasks and standardize the methodology for performing similar tasks among employees and casinos.

RECOMMENDATION

We recommend that MGCB provide sufficient training for its staff to help ensure the uniform, equitable, effective, and efficient oversight of casino gaming throughout the State.

AGENCY PRELIMINARY RESPONSE

MGCB agreed that sufficient training would help ensure uniform, equitable, effective, and efficient oversight of casino gaming. To meet this goal, MGCB informed us that it has recently undertaken a complete review of all staffing and training requirements. MGCB stated that a new tracking program was being developed that will be accessible with a computer desktop icon to all agency employees, allowing them to track their job training requirements and accomplishments. The program will track the State's and MGCB's training requirements as well as the specific job training needs. This tool will allow management to use specific data on training needs when scheduling and budgeting training programs.

MGCB responded that, in the past, it has hired experienced individuals, especially in the areas related to investigation and financial matters, so that they would not need a great deal of training. Many of these individuals have been brought in at the top of the pay range or have received accelerated pay increases with justification that they are experienced. MGCB had an expectation that once someone received training, he/she would then bring that experience back to MGCB and share it with other staff members. However, in light of the Auditor General's finding, MGCB will step up its diligence in providing additional ongoing and in-house training.

MGCB stated that because of the unique nature of the casino business, many training opportunities are available only out-of-State. When unable to bring the training to Michigan or to use teleconferencing facilities, MGCB will continue to seek exceptions to the out-of-State travel ban currently in effect.

FINDING

6. Continuous Quality Improvement (CQI) Process

MGCB needs to establish a comprehensive CQI process to monitor and improve its effectiveness in licensing, regulating, and overseeing casino gaming in accordance with the Michigan Gaming Control and Revenue Act and the Tribal/State Gaming Compacts.

Program effectiveness can often be evaluated and improved by having an effective CQI process. Such a process should include: performance indicators* for measuring outputs* and outcomes*; performance standards* or goals* that describe the desired level of outputs and outcomes based on management expectations, peer group performance, and/or historical performance; a management information system to accurately gather relevant output and outcome data on a timely basis; a comparison of the actual data to desired outputs and outcomes; a reporting of the comparison results to management; and recommendations to improve effectiveness and efficiency or change the desired performance standards or goals.

* See glossary at end of report for definition.

Other than establishing a mission statement and nonquantified goals on a divisional level, MGCB did not use the various components of a CQI process to evaluate the effectiveness of its licensing, regulating, and oversight activities. As a result, MGCB was not able to determine the effectiveness of these activities.

Specifically, our review disclosed:

- a. MGCB had not established quantified performance standards by which management could assess the effectiveness of its licensing, regulating, and oversight activities.

In 1998, MGCB established "agency-wide objectives*" using generalized phraseology, such as "implement, administer and enforce," "protect and enhance," and "provide effective oversight." For example, objectives established included "Protect and enhance the credibility and integrity of the casinos' financial operations" and "Provide effective oversight of Native American casinos in the state to ensure compliance with the Tribal-State Compacts." However, these nonquantified objectives do not provide a measurable basis for determining specific performance and do not isolate performance to individual MGCB sections.

Establishing quantified performance standards would allow MGCB to assess the effectiveness of its licensing, regulating, and oversight activities by Statewide, divisional, and sectional levels and by individual casino.

- b. MGCB had not implemented a management information system to track and analyze information related to casino regulatory compliance violations and subsequent investigations. Thus, MGCB could not determine the numbers of pending investigations, investigations approved by management, and investigations by type of compliance violation and the subsequent duration of investigations. Without such information, MGCB could not evaluate trends in compliance violations or evaluate the performance of individual regulation officers.

* See glossary at end of report for definition.

Without a comprehensive process to evaluate effectiveness and identify potentially needed program changes, MGCB's ability to license, regulate, and oversee casino gaming is significantly reduced.

RECOMMENDATION

We recommend that MGCB establish a comprehensive CQI process to monitor and improve its effectiveness in licensing, regulating, and overseeing casino gaming in accordance with the Michigan Gaming Control and Revenue Act and the Tribal/State Gaming Compacts.

AGENCY PRELIMINARY RESPONSE

MGCB agreed with and welcomed the recommendation for a CQI process.

MGCB responded that the integration of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) has enabled the entire agency to become involved in MGCB's self-assessment and quality assurance initiatives. MGCB's adoption of the COSO principles into the internal control processes began over two years ago with the assignment of staff to assist MGCB's management with reengineering its internal control process. COSO, while admittedly broad, has been key to MGCB's first steps toward a true quality assurance program. MGCB also responded that it has begun to redefine objectives and reassess organizational risks.

MGCB informed us that, during spring 2003, MGCB management created a "leadership team" to conduct a review of MGCB's effectiveness. The team, working with all MGCB employees, developed and adopted a new mission statement that is achievable and quantifiable. With the adoption of the new mission statement, MGCB stated that it developed quantifiable, specific, and measurable goals to achieve the mission. Upon establishing the performance standards and goals, MGCB staff, at all levels, adopted appropriate measures to meet the goals. The measures are posted via e-mail as a scoreboard to all employees and are tracked and analyzed on a regular basis.

Although this process is not the system put in place by the State's Quality Recognition System as recommended in Executive Directive No. 2001-03, MGCB informed us that it is a well-tested management tool taught by Robert Behn, Director of Governors Center at Duke University. In addition, MGCB stated that it

is working to develop its own session for the State "Visions and Values" training program.

EFFECTIVENESS OF LICENSURE PROCESSES

COMMENT

Audit Objective: To assess the effectiveness of MGCB's processes for issuing casino licenses, casino supplier licenses, and occupational licenses.

Conclusion: We concluded that MGCB's processes for issuing casino licenses, casino supplier licenses, and occupational licenses were generally effective. However, our assessment disclosed a reportable condition related to casino employee licensure (Finding 7).

Noteworthy Accomplishments: MGCB designed and implemented a thorough and effective casino licensing methodology. This methodology included the creation of an interagency council that combined the expertise of several government agencies, including MGCB, the Michigan Department of State Police, the Department of Attorney General, and the Internal Revenue Service. Also, MGCB contracted with two nationally recognized gaming consultants for construction and finance expertise in addition to the investigatory and engineering expertise provided within the council's workforce.

The interagency council developed a Background Investigation Protocol to assess casino license applicants' eligibility and suitability in the areas of identity, honesty and integrity, regulatory compliance, financial ability and viability, business probity*, political influence, and public interest. The use of this investigatory protocol resulted in all three commercial casinos restructuring their ownership prior to casino licensure.

FINDING

7. Casino Employee Licensure

MGCB's Casino Employee Licensing Section had not completed investigations of casino employee applicants in a timely manner. As a result, most casino employees were employed through a temporary licensure process that did not provide full eligibility and suitability assurance mandated for occupational licensure.

* See glossary at end of report for definition.

Section 432.208 of the *Michigan Compiled Laws* (a section of the Michigan Gaming Control and Revenue Act) requires that Michigan's commercial casino employees obtain occupational licenses, which are granted after investigations into the applicants' eligibility and suitability. Per the Act, eligibility investigations consist of reviewing the application information and the applicants' criminal records. And, suitability investigations consist of reviewing the applicants' morality and integrity.

The *Michigan Administrative Code* classifies casino employees into three levels based on the employees' responsibilities within the casino:

Level 1: Managers and supervisors with gaming, surveillance, or security related functions.

Level 2: Employees involved with the maintenance, servicing, or operation of gambling games or with casino-associated assets.

Level 3: Employees involved with nongaming related functions, such as food and beverage service, performed in the casino gaming area.

To further facilitate the occupational licensure process, the *Michigan Administrative Code* provides for issuing temporary licenses. MGCB issued temporary licenses during MGCB's initial years of operation to address the influx of approximately 7,500 casino employees when the casinos first opened. The background investigations necessary for temporary licensure focused primarily on the applicants' eligibility as opposed to investigations of the applicants' eligibility and suitability required for occupational licensure.

Our review of MGCB's occupational licensing efforts disclosed the following concerns generated by the backlog:

- a. Of the 7,302 active casino employees, only 3,214 (44%) held occupational licenses. As a result, 56% of all casino employees were employed using a temporary licensure process. These numbers become more critical when assessing those employees with gaming related responsibilities and functions. MGCB had issued occupational licenses to only 13% and 39% of Level 1 and Level 2 employees, respectively.

Typically, three regulation officers conduct these investigations on a full-time basis. According to MGCB information representing a five-month period in 2001, the three regulation officers completed 927 investigations. At this rate, it would take approximately 1 1/2 years to eliminate just the backlog. When MGCB temporarily assigned three additional regulation officers to the Casino Employee Licensing Section, the officers completed 2,101 investigations during a five-month period in 2002. Additional staffing within the Casino Employee Licensing Section would enable the Section to more effectively accomplish its statutory mandates.

In addition, simplification of the application process and technological enhancements to the existing licensure database represent strategies identified by MGCB to increase the efficiency of the licensure process. Such enhancements (including the enhanced licensure database with an implementation date of July 2003) were in various stages of development and, with increased managerial oversight, full implementation of all identified enhancements may come to fruition.

- b. MGCB focused its occupational licensure efforts on applicants with nongaming related roles (Level 3 applicants). This was evidenced by the fact that 83% of these applicants were granted occupational licenses. By contrast, only 37% of gaming related applicants were granted occupational licenses. Of special concern is the fact that only 13% of applicants with a managerial or oversight position (Level 1 applicants) within the casino have obtained occupational licenses. The occupational licensure of employees with access to casino gaming operations would be more likely to help protect and ensure the integrity of casino gaming operations.
- c. Casino employee applicants typically did not receive their occupational licenses until significant periods of time had elapsed. For example, the number of days lapsed from initial application until the application and accompanying investigation report were submitted to MGCB for approval ranged from 356 days for a Level 3 occupational license to 834 days for a Level 2 occupational license. Quicker response times would help protect and ensure the integrity of casino gaming operations.

Michigan's casino employee occupational licensure requirements appear sufficiently stringent to provide an appropriate level of assurance regarding the applicants' qualification, eligibility, and suitability. However, the Casino Employee Licensing Section has three regulation officers to investigate all casino employee applicants.

RECOMMENDATION

We recommend that MGCB complete investigations of casino employee applicants in a timely manner to provide full eligibility and suitability assurance mandated for occupational licensure.

AGENCY PRELIMINARY RESPONSE

Due to the enormous task by MGCB in processing the numerous occupational license applications, MGCB agreed that the findings of the Auditor General have merit. However, since the audit period, MGCB believes that it has made significant progress in reducing the time that it takes for licenses to be approved or denied and in reducing the size of the backlog. Eliminating the backlog is one of MGCB's specific measurable goals. With the progress that MGCB has made, MGCB believes that the elimination of this backlog can be done in one year's time.

Despite the continuous influx of new applications, MGCB informed us that the number of individuals holding a temporary occupational license has decreased significantly. Currently, 79.5% of the active casino employees hold permanent occupational licenses as opposed to 44% at the time of the audit. This improvement applies to all three levels of permanent occupational licensees as follows:

Level 1 - 21% currently versus 13% at the time of the audit.

Level 2 - 83% currently versus 39% at the time of the audit.

Level 3 - 97% currently versus 83% at the time of the audit.

Also, MGCB stated that the current focus of the Casino Employee Licensing Section is conducting background investigations on temporary license holders in managerial or oversight positions (Level 1 applicants).

Further, MGCB responded that the average number of days lapsed from initial applications to MGCB approval or denial has been reduced as follows:

Level 1 - Currently 172 days.

Level 2 - From 834 days to 123 days.

Level 3 - From 356 days to 67 days.

In February 2003, MGCB contracted with consultants Jefferson-Wells International to evaluate the Casino Employee Licensing Section's procedures and processes. MGCB informed us that, at the conclusion of this evaluation, Jefferson-Wells made several "quick hit" and "long-term" recommendations to increase the efficiency of the Section. MGCB stated that the Section has instituted 9 of 11 quick hits and is working toward the implementation of the long-term recommendations. Long-range procedural efficiencies and recommendations will be implemented as soon as phase II of MGCB's automated system enhancements are completed. MGCB also stated that the effect of these changes has been positive and has increased the Section's output as evidenced by the aforementioned statistical results.

SUPPLEMENTAL INFORMATION

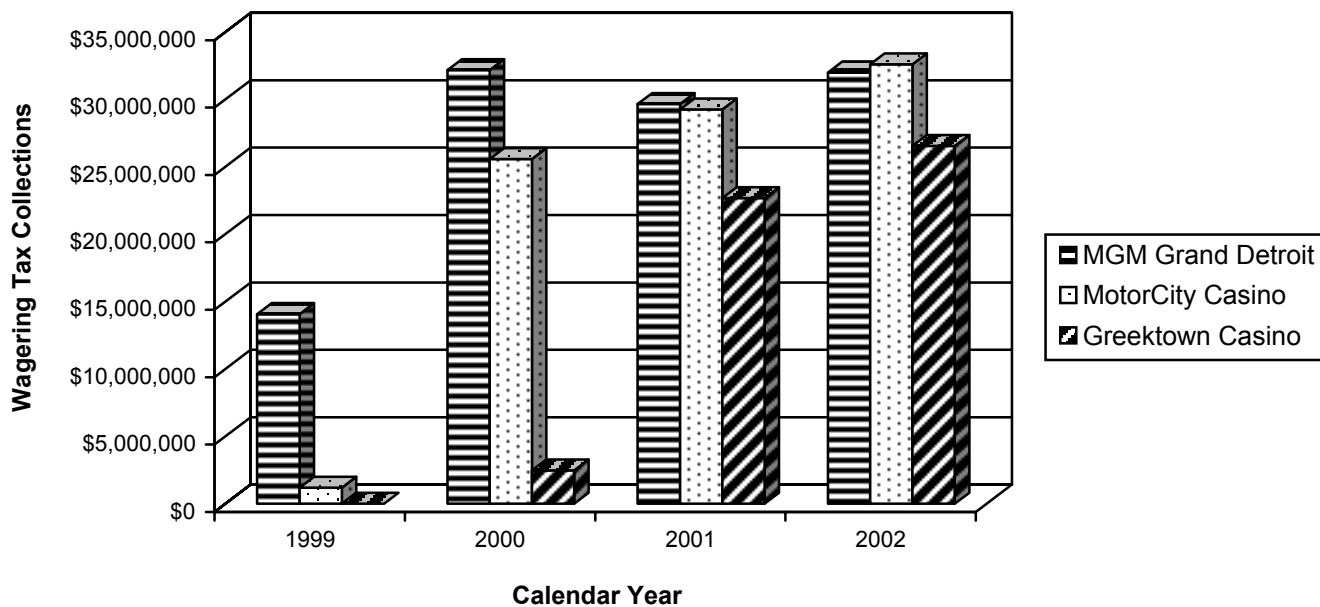
MICHIGAN GAMING CONTROL BOARD
Commercial Casino Revenue and Wagering Taxes
Calendar Year 2002

Month	MGM Grand Detroit		MotorCity Casino	
	Total Adjusted Gross Revenue	State Wagering Tax (8.10%)	Total Adjusted Gross Revenue	State Wagering Tax (8.10%)
January	\$ 35,225,125	\$ 2,853,235	\$ 33,345,362	\$ 2,700,974
February	33,891,692	2,745,227	33,557,628	2,718,168
March	35,763,564	2,896,849	37,282,524	3,019,884
April	34,989,268	2,834,131	33,881,476	2,744,400
May	33,603,150	2,721,855	33,885,981	2,744,764
June	30,729,140	2,489,060	32,864,131	2,661,995
July	30,817,596	2,496,225	34,576,498	2,800,696
August	31,371,393	2,541,083	35,449,122	2,871,379
September	32,210,964	2,609,088	31,430,824	2,545,897
October	32,367,495	2,621,767	31,855,118	2,580,265
November	31,901,730	2,584,040	30,300,867	2,454,370
December	32,110,576	2,600,957	34,084,012	2,760,805
Total	<u>\$ 394,981,693</u>	<u>\$ 31,993,517</u>	<u>\$ 402,513,543</u>	<u>\$ 32,603,597</u>

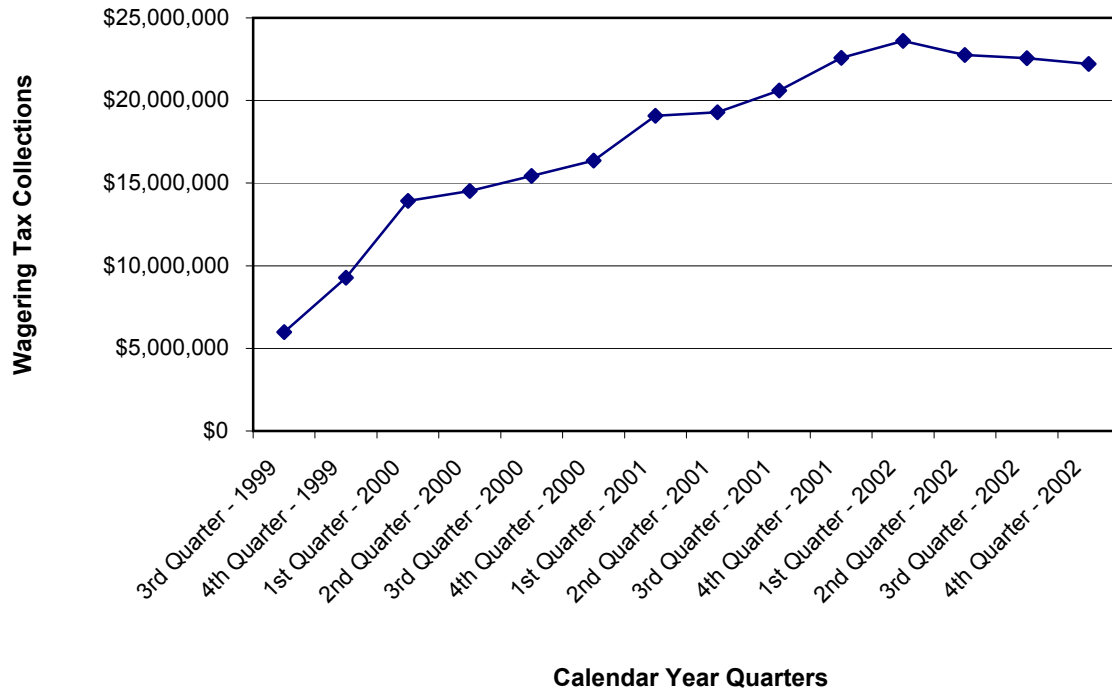
UNAUDITED
Exhibit 1

Greektown Casino		All Detroit Casinos	
Total Adjusted Gross Revenue	State Wagering Tax (8.10%)	Total Adjusted Gross Revenue	Total State Wagering Tax (8.10%)
\$ 26,191,327	\$ 2,121,498	\$ 94,761,814	\$ 7,675,707
26,923,121	2,180,773	94,372,441	7,644,168
29,304,762	2,373,686	102,350,850	8,290,419
28,257,952	2,288,894	97,128,696	7,867,424
27,811,203	2,252,707	95,300,334	7,719,327
24,891,441	2,016,207	88,484,712	7,167,262
28,070,251	2,273,690	93,464,344	7,570,612
28,803,846	2,333,112	95,624,362	7,745,573
25,688,840	2,080,796	89,330,628	7,235,781
27,938,266	2,263,000	92,160,879	7,465,031
28,041,184	2,271,336	90,243,781	7,309,746
25,726,072	2,083,812	91,920,660	7,445,573
<u>\$ 327,648,265</u>	<u>\$ 26,539,509</u>	<u>\$ 1,125,143,500</u>	<u>\$ 91,136,624</u>

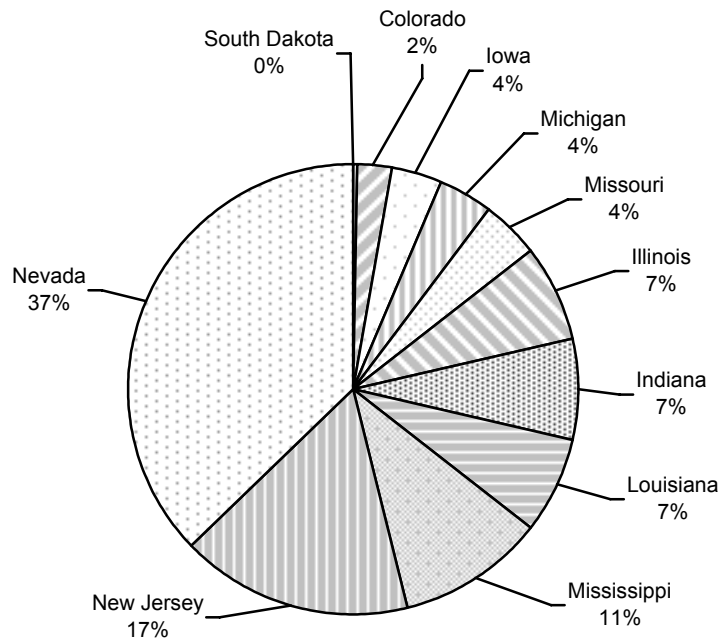
MICHIGAN GAMING CONTROL BOARD
Annual State Wagering Tax Collections by Commercial Casino
For Calendar Years 1999 Through 2002



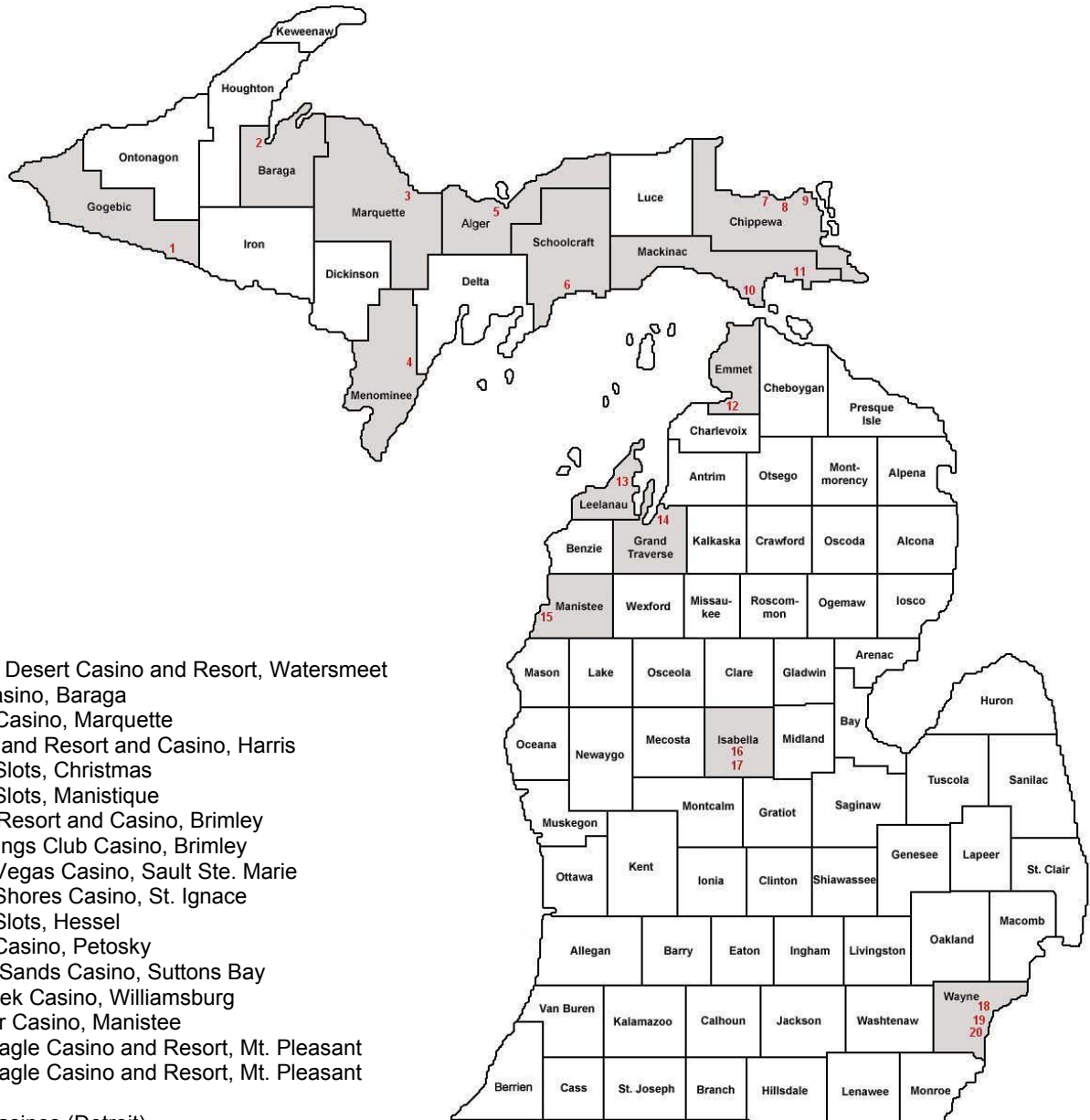
MICHIGAN GAMING CONTROL BOARD
Total Quarterly State Wagering Tax Collections - Commercial Casinos
For the Period July 1, 1999 Through December 31, 2002



MICHIGAN GAMING CONTROL BOARD
Proportion of Commercial Casino Gaming Gross Revenue by State
Calendar Year 2001



MICHIGAN GAMING CONTROL BOARD
Michigan Casino Locations
As of December 2002



Tribal Casinos

1. Lac Vieux Desert Casino and Resort, Watersmeet
2. Ojibwa Casino, Baraga
3. Ojibwa II Casino, Marquette
4. Chip-In Island Resort and Casino, Harris
5. Kewadin Slots, Christmas
6. Kewadin Slots, Manistique
7. Bay Mills Resort and Casino, Brimley
8. Brimley Kings Club Casino, Brimley
9. Kewadin Vegas Casino, Sault Ste. Marie
10. Kewadin Shores Casino, St. Ignace
11. Kewadin Slots, Hessel
12. Victories Casino, Petoskey
13. Leelanau Sands Casino, Suttons Bay
14. Turtle Creek Casino, Williamsburg
15. Little River Casino, Manistee
16. Soaring Eagle Casino and Resort, Mt. Pleasant
17. Soaring Eagle Casino and Resort, Mt. Pleasant

Commercial Casinos (Detroit)

18. MotorCity Casino
19. MGM Grand Detroit
20. Greektown Casino

Glossary of Acronyms and Terms

adjusted gross revenue	The profit for a casino after paying all prizes to patrons; the basis for taxable revenue from casino gaming.
class III gaming	All forms of gaming authorized by the Tribal/State Gaming Compacts that are neither class I nor class II gaming as defined by the federal Indian Gaming Regulatory Act of 1998. Class I gaming includes social games played only for prizes of minimal value or traditional forms associated with tribal ceremonies or celebrations. Class II gaming includes games such as bingo, pulltabs, lotto, punch boards, instant bingo, and other games similar to bingo. Class III gaming includes electronic games of chance, such as slot machines and video poker, blackjack, pari-mutuel racing, jai alai, and banking card games, in which players play against the casino and the casino acts as a banker.
commercial casinos	In November 1996, Michigan voters approved Proposal E, which authorized the development of up to three licensed, commercial casinos in Detroit. These casinos include MGM Grand Detroit licensed in July 1999, MotorCity Casino licensed in December 1999, and Greektown Casino licensed in November 2000.
consent judgment	The order issued by a United States district court providing for the Native American tribes and the State of Michigan's agreement to the terms, provisions, and conditions resulting from litigation between the parties, with subsequent agreement to written compacts.
continuous quality improvement (CQI)	A process that aligns the vision and mission of an organization with the needs and expectations of internal and external customers. It normally includes a process to improve program effectiveness and efficiency by assessing performance indicators that measure outputs and outcomes related to the program vision, mission, goals, and objectives.

COSO	Committee of Sponsoring Organizations of the Treadway Commission.
effectiveness	Program success in achieving mission and goals.
efficiency	Achieving the most outputs and outcomes practical with the minimum amount of resources.
electronic games of chance	A microprocessor-controlled electronic device that allows a player to play a game of chance, which may be affected by an element of skill. The device is activated by the insertion of a coin, currency, or a token or by the use of a credit and awards game credits; cash; tokens or replays; or a written statement of the player's accumulated credits, which are redeemable for cash.
goals	The agency's intended outcomes or impacts for a program to accomplish its mission.
ICS	internal control system.
internal control	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.
material condition	A reportable condition that could impair the ability of management to operate a program in an effective and efficient manner and/or could adversely affect the judgment of an interested person concerning the effectiveness and efficiency of the program.
MGCB	Michigan Gaming Control Board.
MICS	Minimum Internal Control Standards.

mission	The agency's main purpose or the reason that the agency was established.
objectives	Specific outcomes that a program seeks to achieve its goals.
outcomes	The actual impacts of the program.
outputs	The products or services produced by the program.
performance audit	An economy and efficiency audit or a program audit that is designed to provide an independent assessment of the performance of a governmental entity, program, activity, or function to improve public accountability and to facilitate decision making by parties responsible for overseeing or initiating corrective action.
performance indicators	Information of a quantitative or qualitative nature used to assess achievement of goals and/or objectives.
performance standard	A desired level of output or outcome.
probity	Complete and confirmed integrity; uprightness.
reportable condition	A matter that, in the auditor's judgment, represents either an opportunity for improvement or a significant deficiency in management's ability to operate a program in an effective and efficient manner.
Tribal/State Gaming Compacts	The written agreements between the 11 federally recognized Native American tribes and the State of Michigan that permit the conduct of class III gaming by each of the tribes on Indian lands in Michigan. The compacts were approved by concurrent resolutions of the Michigan Legislature and by the Office of the Secretary, United States Department of the Interior, with its approval published in the <i>Federal Register</i> .